WASHINGTON – Congressman Spencer Bachus (AL-6) today said. “Federal tax law should not force seniors to take money from their retirement accounts at a time when the value of their investments has plummeted.”

Congressman Bachus is an original cosponsor of legislation introduced today that would temporarily waive a requirement that forces retirees 70 ½ years and older to withdraw a minimum amount of money annually from their Individual Retirement Accounts (IRAs) and 401(k) plans. Savers who fail to take out that money are hit a tax penalty as high as 50%. Bachus also wrote to the Treasury Department, asking it to use existing authority to temporarily suspend the mandate.

Congressman Bachus said, “Senior citizens are facing uncertainty during these challenging economic times. They do not understand why a regulation would force them to draw from their retirement accounts at a time when stocks are low, leading to a premature depletion of their life savings. This common sense proposal gives them a choice of withdrawing their money as usual or keeping it without penalty until the market recovers.”

Bachus worked on the legislation with Congressman Rodney Frelinghuysen of New Jersey, who introduced the bill. The suspension of the annual minimum distribution requirement would be apply all of 2008 and

2009.

In his letter to the Treasury Department, Bachus said, “While the Internal Revenue Code requires retired individuals to begin taking withdrawals the later of the year after they retire or the year after they turn 70 ½, it is my understanding that Treasury regulations set the specific intervals and penalties. It is my hope that you will use the flexibility provided by the statute to suspend the tax penalty and allow retirees to protect their savings from the current bear market by temporarily suspending Required Minimum Distributions.”

Congressman Bachus said he has been contacted by many constituents in the 6th District who do not want to remove money from their accounts when values are low. Instead of taking a permanent hit to their retirement savings, Bachus said they would prefer to keep money in their accounts and give the market time to recover.

The text of the letter to the Treasury Department follows.

November 19, 2008

The Honorable Henry Paulson

Secretary of the Treasury

1500 Pennsylvania Avenue NW

Washington, DC 20220-0001

Dear Secretary Paulson,

As I have traveled around the 6th Congressional district over the last month, a constant refrain I have heard from my constituents is that they are scared their savings will be swallowed by the current market. For many, they have worked hard for years to build up enough savings in their Individual Retirement Accounts (IRAs) and 401(k)s to provide for their retirement only to see the value of those accounts drop precipitously during the current financial downturn.

Those at greatest risk now are senior citizens who fear that they will prematurely deplete their retirement savings if they are forced to withdraw money during the down market. These retirees are by definition long-term investors who regularly contributed to their savings regardless of the ups and downs in the market. But now their hard-earned savings are at risk through no fault of their own.

At a time when retirement plans have lost significant value, these retirees are forced to take a Required Minimum Distribution while the market is down or else accept a 50% tax penalty. For many retirees these distributions will threaten their ability to rely on their retirement plans in the future. While the Internal Revenue Code requires retired individuals to begin taking withdrawals the later of the year after they retire or the year after they turn 70 ½, it is my understanding that Treasury regulations set the specific intervals and penalties. It is my hope that you will use the flexibility provided by the statute to suspend the tax penalty and allow retirees to protect their savings from the current bear market by temporarily suspending Required Minimum Distributions. This temporary action should be extended retroactively for all distributions beginning January 1, 2008.